

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: May 20, 2011

SUBJECT: Palmetto Fund, Ltd. Recommendation

TO: Members of the Board

FROM: James H. Grossman, Jr., CPA, CFA
Managing Director of External Public Markets, Risk & Compliance

At the June Finance Committee meeting, Nephila Capital will be here to make a presentation on the insurance linked securities industry. Staff and Aksia will recommend that PSERS invest in the Palmetto Fund, Ltd., Class E shares, managed by Nephila Capital, Ltd. The returns generated from the insurance linked securities market are not correlated with returns of the broad financial markets. In addition, Nephila Capital's funds have attractive risk/return profiles.

Nephila Capital was formed in 1997 by Managing Partners Frank Majors and Greg Hagood, two experienced investors in the insurance linked securities industry. The first fund was launched in 1998. Nephila Capital is the largest investment manager in this industry in terms of both assets under management and investment team size. The investment team is located in Bermuda, the home of the largest property catastrophe reinsurance market in the world. The reinsurance market is controlled by brokers where relationships and information flow are critical to a program's success. Nephila Capital established a physical presence in Bermuda over 10 years ago giving them a competitive advantage in this market. In addition, as Nephila Capital's assets under management have grown, they have been invited to participate in private market transactions that smaller managers do not have access to.

Included for your review are Aksia's recommendation, a PowerPoint presentation prepared by staff, and the resolution recommending the investment in the Palmetto Fund, Ltd.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4703.